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PP RUEHAG RUEHAST RUEHBI RUEHCI RUEHDF RUEHIK RUEHLH RUEHLD RUEHLZ

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DE RUEHAB #0038 0081746

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FM AMEMBASSY ASHGABAT

TO RUEHC/SECSTATE WASHDC PRIORITY 0027

INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE PRIORITY

RUCNCIS/CIS COLLECTIVE PRIORITY

RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY

RUEHAK/AMEMBASSY ANKARA PRIORITY 3217

RUEHBJ/AMEMBASSY BEIJING PRIORITY 1032

RUEHKO/AMEMBASSY TOKYO PRIORITY 0906

RUEHIT/AMCONSUL ISTANBUL PRIORITY 1480

RUEKJCS/JOINT STAFF WASHDC PRIORITY

RHMFIUU/CDR USCENTCOM MACDILL AFB FL PRIORITY

RUEKJCS/SECDEF WASHDC PRIORITY

RUEAAIA/CIA WASHDC PRIORITY

RHEHNSC/NSC WASHDC PRIORITY

RHEFDIA/DIA WASHDC PRIORITY

RUCPDOC/DEPT OF COMMERCE WASHDC PRIORITY

RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY

UNCLAS ASHGABAT 000038

SIPDIS

SENSITIVE

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STATE FOR SCA/CEN, EUR/RUS, EUR/CARC, EEB

STATE PLEASE PASS TO USTDA DAN STEIN

COMMERCE FOR HUEPER

ENERGY FOR EKIMOFF

E.O. 12958: N/A

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SUBJECT: TURKMENISTAN: UPDATE ON OIL AND GASS DEVELOPMENTS SINCE TIOGE-2007 IN OCTOBER

¶1. (U) Sensitive but unclassified. Not for public Internet.

CASPIAN LITTORAL PIPELINE: FINANCIAL DETAILS STILL UNCLEAR

¶2. (SBU) On December 20, Turkmenistan, Kazakhstan and Russia signed an agreement to build a natural gas pipeline along the Caspian coast line. However, none of the three parties has subsequently shed any light on the cost structure of the pipeline, and it is quite possible that this issue remains undecided, even though press reports suggested each would pay for its own section, leaving Russia the clear winner with by far the shortest section. Other interested parties, most notably including Petronas, which operates a ga-rich block in Turkmenistan's sector of the Caspian Sea, apparently are not being kept in the loop in the negotiations. A few Russian press reports mentioned a possible arrangement to create an operator company in which Russia and Kazakhstan will have equal stakes, while Turkmenistan will hold a minority share. Turkmenistani papers only covered information on the technical design of the line. The total capacity of the pipeline is to be 20 bcm of natural gas a year, with both Turkmenistan and Kazakhstan contributing to the total.

According to the agreement, Turkmenistan will lay a new pipe and build new and rehabilitate existing compressor stations of the 290 kilometer section of the old CAC-III (Central Asia-Center III) system on its territory. The CAC-III merges with the CAC-IV in the Kazakhstani city of Beyneu and then connects to the Russia pipeline network in Alexandrov Gai.

GAS SUPPLIES TO IRAN HALTED INDEFINITELY

¶3. (SBU) Turkmenistan stopped supplying gas to Iran in the first days of 2008. The news came shortly after the Iranian oil Ministry delegation visited Ashgabat on December 26. Although Turkmenistan officially stated that the reason for stopping the supply is to conduct an overhaul of the pipeline system, Iranian press reports suggest that Turkmenistan is interested in increasing the price of gas to Iran by 200%. The official price for Turkmenistan's southern

neighbor was last reported two years ago as \$65 per thousand cubic meters.

NEW AUDIT OF PETROLEUM RESERVES

¶4. (SBU) In late December, President Berdimuhamedov ordered yet another audit of Turkmenistan's oil and gas reserves (the last one was conducted about four years ago, in connection with a possible Trans-Afghanistan pipeline). The President commented that the audit will help adjust the 2030 Petroleum Sector Development Plan, a plan many experts consider too ambitious. It is still not clear, however, whether the results will be made public. A recent public announcement that Turkmenistan did not produce the planned 20 million tons of oil in 2007 could also be prompting President Berdimuhamedov to reconsider the 2030 Plan production targets.

BURREN SOLD, WHILE LUKOIL REMAINS WITHOUT A PSA

¶5. (SBU) The UK-registered hydrocarbon firm, Burren Energy, unexpectedly announced that it had been acquired by an Italian firm, Eni, for \$3.6 billion. We hear the Government of Turkmenistan was not pleased by Burren's failure to inform it prior to the public announcement. Just a few weeks later, an apparently premature press announcement that LukOil had signed a memorandum of understanding for some Caspian blocks reportedly elicited such a strongly negative reaction in Ashgabat that LukOil was forced to issue a retraction the next day.

HOAGLAND